

## Company Report

China Merchants Securities (HK) Co., Ltd.  
Hong Kong Equity Research

## China Resources Land (1109 HK)

## FY14 preview: Earnings growth to accelerate

■ We expect 25% core profit growth in FY14E with relatively stable gross margin at about 30%

■ Expect CR Land to benefit from a strong FY15 outlook with better contracted sales and profit growth than peers

## FY14 core earnings to grow at 25%

CR Land will announce annual results next Monday (23 March). We estimate it will achieve HKD83.9bn revenue (18% YoY, 3% below Bloomberg consensus: HKD86.3bn) and core net profit of HKD11.8bn (25% YoY, 3% higher than Bloomberg consensus: HKD11.4bn).

## Market focus: SOE reform; GP margin

For the upcoming annual results, we believe the market would be more interested in possible SOE reforms on this central government enterprise, e.g. potential M&A. Meanwhile, after China Merchants Property (000024 CH) and Country Garden (2007 HK) announced annual results with a notable decline in gross profit margin, investors would be more sensitive to GPM trend. If CR Land is able to keep GPM relatively stable (our FY14E estimate: 29.9% vs 1H14 at 30.6%), we believe investors will be more confident on its earnings prospect in 2015.

## We expect better growth compared to peers in FY15E

In 2M15, CR Land made RMB10.2bn contracted sales, +77% YoY (peer average: -19%), thanks to successful presales of its new project in Shenzhen (presold over 1,000 residential units at RMB3.5bn in the past few months). In 2015, we remain positive on the homes sales recovery, especially in major cities where CR Land focuses on and we estimate FY15E contracted sales at HKD113bn, representing 30% YoY growth vs peers at about 10-15%. We also expect FY15E core profit to surge 34% YoY driven by enlarged property booking after the recent asset injection.

## Valuation: deserve a premium against peers

Our current target price of HKD27.7 is based on 16% discount to our end-FY15E NAV which is equal to 0.5SD above its 5-year mean. We will provide more update after results announcement.

## Financials

| HKD mn                 | 2012   | 2013   | 2014E  | 2015E   | 2016E   |
|------------------------|--------|--------|--------|---------|---------|
| Revenue                | 44,364 | 71,389 | 83,902 | 107,837 | 126,565 |
| Revenue growth (%)     | 24%    | 61%    | 18%    | 29%     | 17%     |
| Core net profit        | 7,249  | 9,444  | 11,817 | 15,893  | 21,838  |
| Core profit growth (%) | 33%    | 30%    | 25%    | 34%     | 37%     |
| Core EPS (HK\$)        | 1.25   | 1.62   | 2.03   | 2.43    | 3.34    |
| Net gearing (%)        | 40%    | 39%    | 47%    | 32%     | 23%     |
| P/E (core EPS)         | 15.9x  | 12.2x  | 9.8x   | 8.2x    | 5.9x    |
| P/B                    | 1.9x   | 1.5x   | 1.4x   | 1.1x    | 0.9x    |
| Dividend yield         | 1.7%   | 2.2%   | 2.2%   | 2.5%    | 3.4%    |

Source: Company data, CMS (HK) estimates

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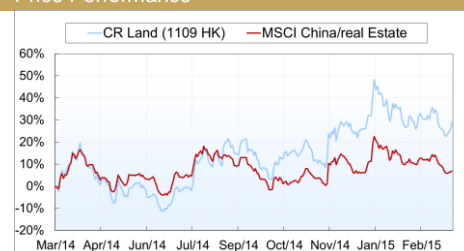
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## WHAT'S NEW

## BUY

|   |                 |
|---|-----------------|
| Previous                                    | BUY             |
| Price                                       | HK\$19.84       |
| 12-month Target Price<br>(Potential upside) | HK\$27.7 (+40%) |
| Previous                                    | HK\$27.7        |

## Price Performance



Source: Capital IQ

| %                      | 1m   | 6m   | 12m  |
|------------------------|------|------|------|
| 1109 HK                | -4.0 | 17.3 | 29.1 |
| MSCI China Real Estate | -5.7 | 1.3  | 7.0  |

## Property

|                 |       |
|-----------------|-------|
| Hang Seng Index | 24120 |
| HSCEI           | 11982 |

## Key Data

|                          |           |
|--------------------------|-----------|
| 52-week range (HK\$)     | 13.6-23.6 |
| Market cap (HK\$ mn)     | 138,780   |
| Avg. daily volume (mn)   | 13.56     |
| BVPS (HK\$) at 2014 y.e. | 14.4      |

## Shareholdings Structure

|                            |       |
|----------------------------|-------|
| China Resources (Holdings) | 64.0% |
|----------------------------|-------|

|            |       |
|------------|-------|
| Free float | 36.0% |
|------------|-------|

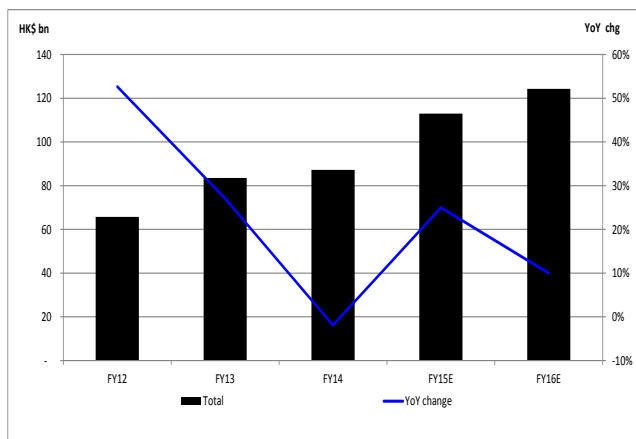
## Focus charts

Figure 1: Discount to NAV Band



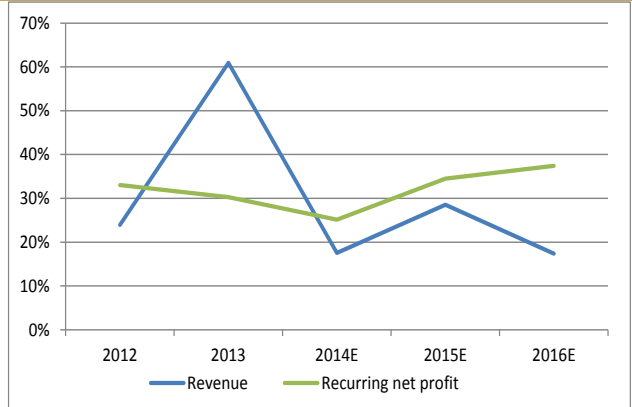
Source: Bloomberg, CMS (HK)

Figure 2: Contracted sales



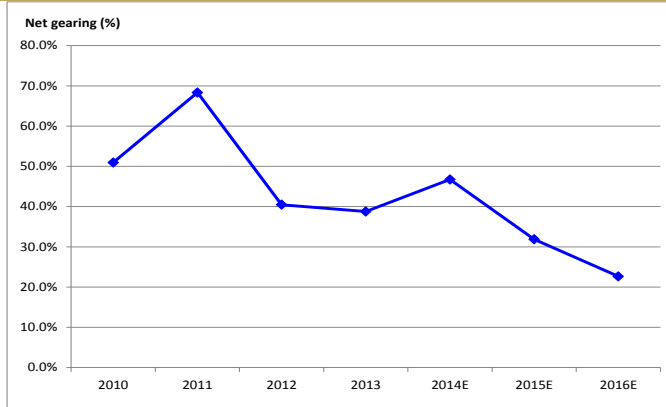
Source: Company data, CMS (HK)

Figure 3: Revenue and profit growth



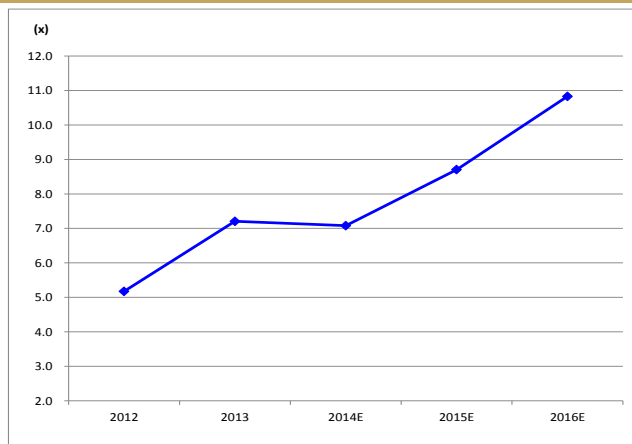
Source: Company data, CMS (HK)

Figure 4: Net gearing



Source: Company data, CMS (HK)

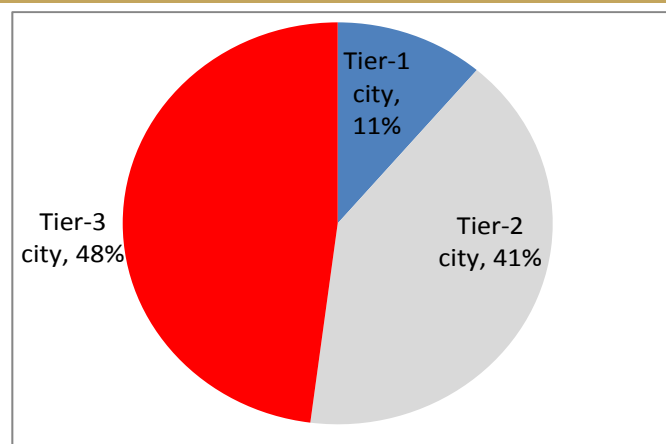
Figure 5: Interest coverage



Source: CMS (HK)

Note: Operating profit / total interest (capitalized portion included)

Figure 6: Landbank (GFA)



Source: Company data, CMS (HK)

## Sector's valuation

Figure 7: Peer comparison: valuation (Based on market close on 18 March 2015)

| Company                           | Ticker  | Price | Mkt cap (USDm) | 3-mth avg t/o (USDmn) | NAV (HKD) | Discount to NAV (%) | FY14 P/E (x) | FY15 P/E (x) | FY13 yield (%) | FY14 yield (%) | FY13 P/B (x) | FY14 P/B (x) | Net gearing FY13 (%) | Net gearing FY14 (%) |
|-----------------------------------|---------|-------|----------------|-----------------------|-----------|---------------------|--------------|--------------|----------------|----------------|--------------|--------------|----------------------|----------------------|
| <b>Large peer average</b>         |         |       |                |                       |           | <b>33.5</b>         | <b>6.9</b>   | <b>6.3</b>   | <b>5.9</b>     | <b>4.0</b>     | <b>1.3</b>   | <b>1.1</b>   | <b>62.7</b>          | <b>84.0</b>          |
| China Overseas                    | 688 HK  | 21.65 | 22,812         | 68.1                  | 28.2      | 23.2                | 8.0          | 7.2          | 2.2            | 2.2            | 1.6          | 1.4          | 28.2                 | 39.3                 |
| CR Land                           | 1109 HK | 19.84 | 16,703         | 33.5                  | 33.0      | 39.9                | 9.8          | 8.2          | 2.2            | 2.2            | 1.5          | 1.4          | 38.8                 | 46.7                 |
| Country Garden                    | 2007 HK | 2.90  | 7,608          | 12.8                  | 4.7       | 38.6                | 4.7          | 4.8          | 7.3            | 6.4            | 1.0          | 0.8          | 64.3                 | 62.2                 |
| Evergrande                        | 3333 HK | 3.47  | 6,544          | 12.3                  | 5.3       | 34.5                | 5.8          | 6.4          | 15.6           | 4.4            | 0.9          | 0.8          | 147.6                | 282.4                |
| Longfor                           | 960 HK  | 9.81  | 7,346          | 4.7                   | 14.6      | 32.8                | 6.5          | 5.1          | 2.9            | 3.2            | 1.1          | 1.0          | 57.9                 | 57.1                 |
| Shimao Property                   | 813 HK  | 15.30 | 6,849          | 19.3                  | 27.3      | 44.0                | 5.0          | 4.9          | 5.3            | 6.0            | 1.0          | 0.9          | 57.4                 | 57.6                 |
| China Vanke-H                     | 2202 HK | 17.30 | 23,393         | 24.0                  | 22.0      | 21.4                | 8.8          | 7.4          | N/A            | 3.5            | 2.0          | 1.7          | 44.7                 | 40.1                 |
| <b>Mid-and-small peer average</b> |         |       |                |                       |           | <b>58.8</b>         | <b>7.4</b>   | <b>6.2</b>   | <b>5.9</b>     | <b>5.1</b>     | <b>0.6</b>   | <b>0.5</b>   | <b>64.4</b>          | <b>78.3</b>          |
| Agile Property                    | 3383 HK | 4.20  | 2,121          | 6.8                   | 14.4      | 70.8                | 3.3          | 3.3          | 11.3           | 6.7            | 0.4          | 0.4          | 97.6                 | 106.1                |
| CM Land                           | 978 HK  | 1.06  | 670            | 1.4                   | 3.3       | 67.9                | 10.9         | 6.7          | 1.1            | 0.9            | 0.8          | 0.9          | 3.7                  | 49.4                 |
| COGO                              | 81 HK   | 3.76  | 1,106          | 1.6                   | 8.9       | 57.8                | 7.0          | 4.4          | 2.9            | 1.4            | 0.8          | 0.7          | 44.0                 | 65.8                 |
| Franshion Ppt                     | 817 HK  | 2.13  | 2,490          | 2.5                   | 4.5       | 52.7                | 6.2          | 5.2          | 4.5            | 4.8            | 0.6          | 0.6          | 44.9                 | 61.6                 |
| Greentown China                   | 3900 HK | 6.51  | 1,814          | 5.4                   | 18.1      | 64.0                | 5.6          | 3.5          | 8.3            | 3.5            | 0.5          | 0.5          | 71.2                 | 89.3                 |
| Hopson                            | 754 HK  | 5.14  | 1,487          | 0.8                   | 25.0      | 79.4                | 9.2          | 13.9         | N/A            | 0.0            | 0.2          | N/A          | 61.6                 | N/A                  |
| KWG Property                      | 1813 HK | 4.72  | 1,793          | 5.1                   | 15.7      | 69.9                | 4.0          | 3.4          | 7.7            | 8.1            | 0.6          | 0.6          | 56.3                 | 67.0                 |
| Poly Property                     | 119 HK  | 3.55  | 1,676          | 9.4                   | 8.1       | 56.2                | 6.8          | 6.0          | 6.3            | 5.0            | 0.4          | 0.4          | 94.4                 | 102.1                |
| Shenzhen Investment               | 604 HK  | 2.42  | 2,076          | 2.1                   | 6.0       | 59.7                | 6.3          | 5.1          | 6.2            | 6.2            | 0.5          | 0.4          | 80.7                 | N/A                  |
| Shui On Land                      | 272 HK  | 1.70  | 1,753          | 1.6                   | n.a.      | n.a.                | 15.7         | 7.9          | 3.6            | 3.1            | 0.3          | 0.2          | 76.6                 | 79.7                 |
| Sino Ocean                        | 3377 HK | 4.83  | 4,668          | 3.5                   | 8.0       | 39.6                | 7.1          | 6.3          | 4.9            | 5.4            | 0.7          | 0.6          | 71.0                 | 53.0                 |
| SOHO China                        | 410 HK  | 5.01  | 3,358          | 2.9                   | 8.6       | 41.7                | 22.6         | 21.9         | 6.2            | 5.9            | 0.5          | 0.5          | 20.3                 | 28.6                 |
| Sunac                             | 1918 HK | 6.54  | 2,853          | 14.2                  | 12.4      | 47.3                | 4.3          | 2.9          | 3.7            | 4.4            | 1.3          | 1.0          | 69.7                 | 71.6                 |
| <b>Average</b>                    |         |       |                |                       |           | <b>51.1</b>         | <b>7.3</b>   | <b>6.2</b>   | <b>5.9</b>     | <b>4.8</b>     | <b>0.8</b>   | <b>0.7</b>   | <b>63.9</b>          | <b>80.1</b>          |

Source: CMS (HK), Bloomberg

Figure 8: CR Land's discount to NAV Band



Source: CMS (HK), Bloomberg

Figure 9: Profit and Loss Highlights

| (HKD mn)  | FY12          | FY13          | FY14E         | FY15E          | FY16E          |
|---|---------------|---------------|---------------|----------------|----------------|
| GFA delivered, excluding JCEs/Asso. (k sqm) (1) | 2,607         | 4,997         | 5,439         | 6,691          | 6,789          |
| Average selling price booked (HKD psm) (2)      | 14,776        | 12,971        | 14,066        | 14,887         | 17,309         |
| <b>Property sales revenue (1) x (2)</b>         | <b>38,522</b> | <b>64,818</b> | <b>76,505</b> | <b>99,606</b>  | <b>117,509</b> |
| Others  | 5,842         | 6,571         | 7,397         | 8,231          | 9,056          |
| <b>Total revenue</b>                            | <b>44,364</b> | <b>71,389</b> | <b>83,902</b> | <b>107,837</b> | <b>126,565</b> |
| Gross profit                                    | 16,697        | 20,107        | 25,113        | 35,468         | 43,950         |
| Reported net profit                             | 10,568        | 14,696        | 13,100        | 15,893         | 21,838         |
| <b>Recurring net profit</b>                     | <b>7,249</b>  | <b>9,444</b>  | <b>11,817</b> | <b>15,893</b>  | <b>21,838</b>  |
| Contracted sales                                | 65,722        | 83,500        | 87,217        | 113,000        | 124,300        |
| Property development cost (HKD psm)             | 9,320         | 9,590         | 10,138        | 10,212         | 11,514         |
| Recurring profit per GFA delivered (HKD psm)    | 2,781         | 1,890         | 2,173         | 2,375          | 3,217          |
| <b>YoY changes (In %)</b>                       |               |               |               |                |                |
| GFA delivered                                   | 20.4%         | 91.7%         | 8.8%          | 23.0%          | 1.5%           |
| Average selling price                           | 2.3%          | -12.2%        | 8.4%          | 5.8%           | 16.3%          |
| Total revenue                                   | 23.9%         | 60.9%         | 17.5%         | 28.5%          | 17.4%          |
| Gross profit                                    | 17.7%         | 20.4%         | 24.9%         | 41.2%          | 23.9%          |
| Recurring net profit                            | 33.1%         | 30.3%         | 25.1%         | 34.5%          | 37.4%          |
| Contracted sales                                | 52.6%         | 27.1%         | 4.5%          | 29.6%          | 10.0%          |
| <b>Margin ratios (In %)</b>                     |               |               |               |                |                |
| Gross margin                                    | 37.6%         | 28.2%         | 29.9%         | 32.9%          | 34.7%          |
| Recurring net profit margin (before MI)         | 17.8%         | 13.9%         | 15.3%         | 16.7%          | 18.7%          |

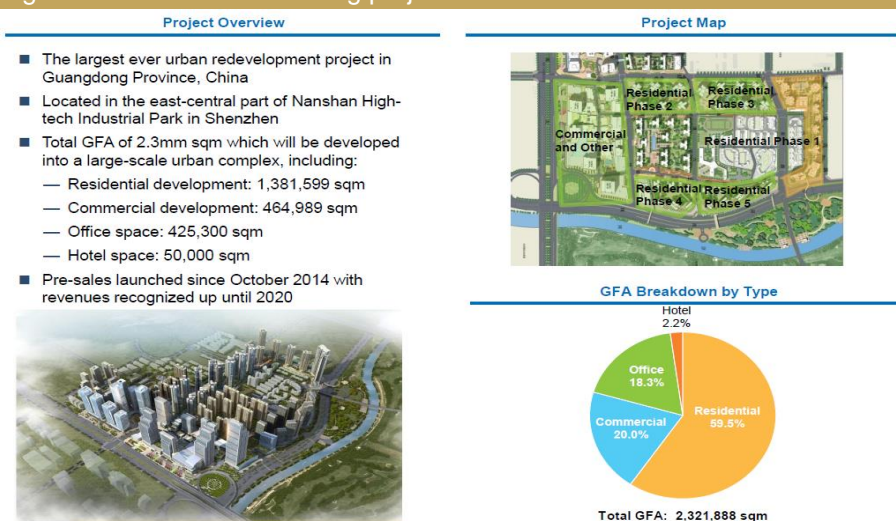
Source: Company, CMS (HK)

## Our recent visit to CR Land's flagship project: Shenzhen Dachong

Shenzhen Dachong (formerly CR City) is CR Land's flagship project which was injected from its parent in January 2015. The project has just launched its phase I with over 1,000 residential units and one block of office building for presales. Up to mid-March, the residential units have been pre-sold out and its 2<sup>nd</sup> launch will kick off in May/June with about RMB5-6bn worth residential units. We estimate the residential selling price would keep relatively stable at about RMB50,000 psm.

This flagship project would become one of the CR Land's cash cows and contributes over RMB5-6bn contracted sales in the next few years.

Figure 10: Shenzhen Dachong project



Source: Company filings

Source: Company

## Financial Summary

## Balance Sheet

| HKD mn                                | 2012           | 2013           | 2014E          | 2015E          | 2016E          |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Current assets</b>                 | <b>174,412</b> | <b>208,478</b> | <b>227,243</b> | <b>256,795</b> | <b>264,894</b> |
| Cash                                  | 21,164         | 27,530         | 38,029         | 47,632         | 58,185         |
| Restricted cash                       | 789            | 709            | 901            | 901            | 901            |
| Current receivables                   | 8,825          | 7,840          | 11,403         | 11,403         | 11,403         |
| Properties under developments         | 141,298        | 164,865        | 168,623        | 188,572        | 186,117        |
| Other current assets                  | 2,336          | 7,534          | 8,287          | 8,287          | 8,287          |
| <b>Non-current assets</b>             | <b>53,844</b>  | <b>73,278</b>  | <b>83,749</b>  | <b>90,309</b>  | <b>97,198</b>  |
| Fixed assets & investment properties  | 50,881         | 67,326         | 78,707         | 84,852         | 90,940         |
| Investment in associates / JCEs       | 2,353          | 2,921          | 2,835          | 3,251          | 4,052          |
| Other non-current assets              | 610            | 3,031          | 2,207          | 2,207          | 2,207          |
| <b>Total assets</b>                   | <b>228,256</b> | <b>281,756</b> | <b>310,992</b> | <b>347,104</b> | <b>362,092</b> |
| <b>Current liabilities</b>            | <b>98,947</b>  | <b>131,760</b> | <b>135,006</b> | <b>135,394</b> | <b>127,225</b> |
| Bank and other loans                  | 5,283          | 16,256         | 23,510         | 23,510         | 23,510         |
| Presales receipts in advance          | 51,631         | 70,572         | 70,596         | 67,040         | 55,186         |
| Accounts payable & other payables     | 23,910         | 32,556         | 28,036         | 28,036         | 28,036         |
| Other current liabilities             | 18,123         | 12,376         | 12,864         | 16,808         | 20,493         |
| <b>Non-current liabilities</b>        | <b>52,809</b>  | <b>56,409</b>  | <b>72,198</b>  | <b>80,238</b>  | <b>83,238</b>  |
| Bank and other loans                  | 47,620         | 48,645         | 63,911         | 66,911         | 69,911         |
| Others                                | 5,189          | 7,764          | 8,287          | 13,327         | 13,327         |
| <b>Total liabilities</b>              | <b>151,756</b> | <b>188,169</b> | <b>207,204</b> | <b>215,632</b> | <b>210,463</b> |
| Shareholders' equity                  | 69,109         | 84,802         | 94,091         | 119,682        | 137,990        |
| Minority interests                    | 7,391          | 8,785          | 9,697          | 11,790         | 13,639         |
| <b>Total equity &amp; liabilities</b> | <b>228,256</b> | <b>281,756</b> | <b>310,992</b> | <b>347,104</b> | <b>362,092</b> |

Note: Total cash includes both cash and restricted cash

## Cashflow Statement

| HKD mn                              | 2012            | 2013            | 2014E           | 2015E           | 2016E           |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Operating cashflow</b>           | <b>21,790</b>   | <b>28,722</b>   | <b>28,154</b>   | <b>41,723</b>   | <b>45,189</b>   |
| Profit before tax                   | 17,494          | 24,278          | 21,710          | 28,776          | 37,055          |
| Working capital chg                 | 15,192          | 19,968          | 17,850          | 22,769          | 21,313          |
| Tax paid                            | (4,416)         | (6,064)         | (7,435)         | (6,846)         | (9,683)         |
| Interest paid                       | (2,604)         | (1,978)         | (2,605)         | (3,344)         | (3,444)         |
| Other operating cashflow            | (3,876)         | (7,482)         | (1,367)         | 368             | (51)            |
| <b>Investing cashflow</b>           | <b>(13,307)</b> | <b>(25,166)</b> | <b>(37,257)</b> | <b>(44,818)</b> | <b>(34,106)</b> |
| Fixed assets additions              | (4,740)         | (6,775)         | (8,994)         | (6,600)         | (6,600)         |
| Land and investment property capex  | (8,000)         | (14,955)        | (28,000)        | (25,000)        | (28,000)        |
| Subsidiary acquisitions/disposals   | 0               | 0               | 0               | (13,602)        | 0               |
| JCE/associates                      | (16)            | (1,253)         | (1,821)         | 0               | 0               |
| Other investing cashflow            | (551)           | (2,183)         | 1,558           | 384             | 494             |
| <b>Financing cashflow</b>           | <b>(3,213)</b>  | <b>2,644</b>    | <b>19,805</b>   | <b>12,698</b>   | <b>(530)</b>    |
| Dividend paid                       | (1,330)         | (2,016)         | (3,044)         | (2,902)         | (3,530)         |
| Shares repurchased                  | 0               | 0               | 0               | 0               | 0               |
| Issuances of equity shares          | 0               | 0               | 0               | 12,600          | 0               |
| Increase / decrease in loans        | (8,975)         | 11,480          | 22,581          | 3,000           | 3,000           |
| Paid / repaid with fellow companies | 7,305           | (6,777)         | 268             | 0               | 0               |
| Other financing cashflow            | (213)           | (43)            | 0               | 0               | 0               |
| <b>Cashflows for the year</b>       | <b>5,270</b>    | <b>6,200</b>    | <b>10,702</b>   | <b>9,603</b>    | <b>10,553</b>   |
| Cash at the beginning               | 15,792          | 21,164          | 27,530          | 38,029          | 47,632          |
| Exchange difference                 | 102             | 166             | (203)           | 0               | 0               |
| <b>Cash at the end</b>              | <b>21,164</b>   | <b>27,530</b>   | <b>38,029</b>   | <b>47,632</b>   | <b>58,185</b>   |

Note: we reclassify land capex from operating cashflows into investing cashflows, which is different from the company's financial statements.

Source: Company data, CMS (HK) estimates

## Profit &amp; Loss Statement

| HKD mn                      | 2012          | 2013          | 2014E         | 2015E          | 2016E          |
|-----------------------------|---------------|---------------|---------------|----------------|----------------|
| <b>Revenue</b>              | <b>44,364</b> | <b>71,389</b> | <b>83,902</b> | <b>107,837</b> | <b>126,565</b> |
| Cost of goods sold          | (27,667)      | (51,282)      | (58,789)      | (72,369)       | (82,614)       |
| <b>Gross profit</b>         | <b>16,697</b> | <b>20,107</b> | <b>25,113</b> | <b>35,468</b>  | <b>43,950</b>  |
| Selling & admin exp         | (3,711)       | (3,926)       | (5,342)       | (6,780)        | (7,458)        |
| Finance cost                | (648)         | (487)         | (603)         | (712)          | (733)          |
| JCE & associates            | 414           | 310           | 52            | 416            | 801            |
| Others                      | 4,742         | 8,274         | 2,490         | 384            | 494            |
| Pre-tax profit              | 17,494        | 24,278        | 21,710        | 28,776         | 37,055         |
| Income tax                  | (6,298)       | (9,091)       | (7,607)       | (10,790)       | (13,368)       |
| MI                          | (628)         | (491)         | (1,003)       | (2,093)        | (1,849)        |
| <b>Reported net profit</b>  | <b>10,568</b> | <b>14,696</b> | <b>13,100</b> | <b>15,893</b>  | <b>21,838</b>  |
| <b>Recurring net profit</b> | <b>7,249</b>  | <b>9,444</b>  | <b>11,817</b> | <b>15,893</b>  | <b>21,838</b>  |

|                |      |      |      |      |      |
|----------------|------|------|------|------|------|
| Core EPS (HKD) | 1.25 | 1.62 | 2.03 | 2.43 | 3.34 |
| DPS (HKD)      | 0.34 | 0.44 | 0.43 | 0.49 | 0.67 |

Note: We deduct property revaluations and other exceptional items to arrive at recurring net profit

## Ratios

| (%)                             | 2012  | 2013  | 2014E   | 2015E   | 2016E  |
|---------------------------------|-------|-------|---------|---------|--------|
| <b>Growth (%)</b>               |       |       |         |         |        |
| Revenue                         | 24%   | 61%   | 18%     | 29%     | 17%    |
| Gross profit                    | 18%   | 20%   | 25%     | 41%     | 24%    |
| Recurring net profit            | 33%   | 30%   | 25%     | 34%     | 37%    |
| PUD and inventory growth        | 17%   | 18%   | 1%      | 12%     | -1%    |
| Total contracted sales growth   | 53%   | 27%   | 4%      | 30%     | 10%    |
| <b>Profitability</b>            |       |       |         |         |        |
| Gross margin                    | 38%   | 28%   | 30%     | 33%     | 35%    |
| Effective tax rate              | 36%   | 37%   | 35%     | 37%     | 36%    |
| Core net margin                 | 18%   | 14%   | 15%     | 17%     | 19%    |
| ROE                             | 11%   | 12%   | 13%     | 15%     | 17%    |
| ROA                             | 4%    | 4%    | 4%      | 5%      | 6%     |
| <b>Liquidity</b>                |       |       |         |         |        |
| Free cash flows (HKD mn)        | 8,483 | 3,556 | (9,103) | (3,095) | 11,084 |
| Total Debt - Total Equity Ratio | 69%   | 69%   | 84%     | 69%     | 62%    |
| Net Debt - Total Equity Ratio   | 40%   | 39%   | 47%     | 32%     | 23%    |
| Interest Coverage (x)           | 5.2   | 7.2   | 7.0     | 8.7     | 10.8   |

## Investment Ratings

| Rating  | Definition   |
|---------|--|
| BUY     | Expected to outperform the market index by >10% over the next 12 months                        |
| NEUTRAL | Expected to outperform or underperform the market index by 10% or less over the next 12 months |
| SELL    | Expected to underperform the market index by >10% over the next 12 months                      |

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